

CITY OF UNDERWOOD
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2014

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CITY OF UNDERWOOD

OFFICIALS

(Before January 2014)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dennis Bardsley	Mayor	January 2014
Robert Dose	Mayor Pro-Tem	January 2016
Todd Erwin	Council Member	January 2016
Edward Freuck	Council Member	January 2014
Jim Pingel	Council Member	January 2014
David Powell	Council Member	January 2016
Kelly Groskurth	City Clerk	Indefinite
Lea Voss	City Treasurer	Appointed yearly
Matthew Woods	City Attorney	Indefinite

(After January 2014)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dennis Bardsley	Mayor	January 2018
Robert Dose	Mayor Pro-Tem	January 2016
Todd Erwin	Council Member	January 2016
Jim Pingel	Council Member	January 2018
David Powell	Council Member	January 2016
Gary Wahel	Council Member	January 2018
Kelly Groskurth	City Clerk	Indefinite
Lea Voss	City Treasurer	Appointed yearly
Matthew Woods	City Attorney	Indefinite

MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

August 26, 2014

Independent Auditor's Report

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To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Underwood, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes that determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Continued . . .

August 26, 2014
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To the Honorable Mayor and
Members of the City Council:

Auditor's Responsibility (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Underwood as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinion is not modified with respect to this matter.

Continued . .

August 26, 2014
Page Three

To the Honorable Mayor and
Members of the City Council:

Other Matters

Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Underwood's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2013 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 33 through 35 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated August 26, 2014 on my consideration of the City of Underwood's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Underwood's internal control over financial reporting and compliance.

Murphy & Associates, CPA, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Underwood provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 11%, or approximately \$87,000, from fiscal year 2013 to fiscal year 2014. Property tax increased approximately \$15,000 and note proceeds increased \$190,000.

Disbursements of the City's governmental activities decreased 20%, or approximately \$160,500 in fiscal year 2014 from fiscal year 2013. Community and economic development, capital projects, and public works disbursements decreased approximately \$239,000, \$164,000, and \$47,000, respectively.

The City's total cash basis net position increased 22% or approximately \$253,000, from June 30, 2013 to June 30, 2014. Of this amount, the cash basis net position of the governmental activities increased approximately \$218,000 and the cash basis net position of the business type activities increased approximately \$35,000.

USING THIS REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the sanitary sewer system and garbage collection. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as the Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Funds, such as the Sewer Improvement Project. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Sewer and Garbage Funds. The Sewer Fund is considered a major fund of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$640,000 to approximately \$858,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year Ended June 30, 2014	Year Ended June 30, 2013
Receipts:		
Program receipts:		
Charges for services	\$ 52,910	\$ 47,017
Operating grants, contributions and restricted interest	188,959	215,134
Capital grants, contributions and restricted interest	-0-	6,575
General receipts:		
Property tax	323,669	308,902
Tax increment financing	42,867	138,374
Local option sales tax	108,381	95,905
Unrestricted investment earnings	-0-	-0-
Note Proceeds	190,000	-0-
Sale of property	-0-	7,651
Total receipts	<u>906,786</u>	<u>819,558</u>
Disbursements:		
Public safety	63,899	66,461
Public works	99,147	145,866
Culture and recreation	32,767	24,346
Community and economic development	70,619	309,896
General government	139,188	156,684
Debt service	91,903	118,839
Capital projects	163,939	-0-
Total disbursements	<u>661,462</u>	<u>822,092</u>
Change in cash basis net position before transfers	245,324	(2,534)
Transfers, net	<u>(27,096)</u>	<u>(23,976)</u>
Change in cash basis net position	218,228	(26,510)
Cash basis net position, beginning of year	<u>639,934</u>	<u>666,444</u>
Cash basis net position, end of year	<u>\$ 858,162</u>	<u>\$ 639,934</u>

The City's total receipts for governmental activities increased 11%, or approximately \$87,000. The total cost of all programs and services decreased approximately \$160,000, or 20%, with no new programs added this year.

Significant increases to governmental receipts included approximately \$15,000 in property taxes and \$190,000 from note proceeds.

The cost of all governmental activities this year was approximately \$661,000 compared to approximately \$822,000 last year. However, as shown in the Statement of Activities and Net Position on pages 14 and 15, the amount taxpayers ultimately financed for these activities was only \$419,593 because some of the cost was paid by those directly benefited from the programs (\$52,910) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$188,959). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2014 from approximately \$269,000 to \$242,000, principally due to decreases in grants, contributions and restricted interest.

Changes in Cash Basis Net Position of Business Type Activities

	Year Ended June 30, 2014	Year Ended June 30, 2013
Receipts:		
Program receipts:		
Charges for services and sales:		
Sewer	\$ 122,023	\$ 116,169
Garbage	45,006	40,082
Operating grants, contributions and restricted interest	-0-	-0-
Capital grants, contributions and restricted interest	-0-	-0-
General receipts:		
Miscellaneous	-0-	7,500
Restricted interest	-0-	100
Sale of assets	1,000	
Net note proceeds	-0-	-0-
Total receipts	<u>168,029</u>	<u>163,851</u>
Disbursements:		
Sewer	120,900	98,124
Garbage	39,550	37,552
Total disbursements	<u>160,450</u>	<u>135,676</u>
Change in cash basis net position before transfers	7,579	28,175
Transfers, net	<u>27,096</u>	<u>23,976</u>
Change in cash basis net position	34,675	52,151
Cash basis net position, beginning of year	<u>496,721</u>	<u>444,570</u>
Cash basis net position, end of year	\$ <u>531,396</u>	\$ <u>496,721</u>

Total business type activities receipts for the fiscal year were approximately \$168,000 compared to approximately \$164,000 last year. The cash balance increased approximately \$34,500 from the prior year primarily due to an increasing number of users along with an increase in usage.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Underwood completed the year, its governmental funds reported a combined fund balance of \$858,162, an increase of \$218,228 from last year's total of \$639,934.

The General Fund cash balance increased \$93,182 from the prior year to \$332,265 at year end. The City finished construction on a business incubator building on Main Street as part of its Main Street Revitalization program. Eagle Landing's TIF agreement was completed. This will generate increased taxable valuations for other taxing entities, including the City's general fund.

The Special Revenue, Road Use Tax Fund cash balance increased \$93,344 to \$334,781. This increase was attributable to approximately \$81,000 of local option sales tax receipted into the Road Use Tax Fund this fiscal year. The city intends to use this money to maintain and upgrade City streets.

The Special Revenue Fund, Urban Renewal Tax Increment Fund was established to account for the Fieldcrest Addition, the Eagle Landing Subdivision and the City's Housing Rehabilitation Program. City Council approved an amendment to the City's Urban Renewal Plan putting the Links Snacks facility in an urban renewal area. The City also signed a tax incremental finance agreement with Links Snacks, Inc. The fund's cash balance increased by \$15,069 to \$168,698 at year end. The City approved amendments to the Fieldcrest Urban Renewal Plan to include Phase 3 of development. The City also amended Urban Renewal Area South in order to remove completed Tax Increment Financing Agreement area of Eagle Landing as Eagle Landing has collected all applicable Tax Increment Financing Revenues allowable by law. The City further amended Urban Renewal South to include the Business Incubator Project. Lastly, the City amended the 2010 Urban Renewal Area to include G-30 beautification sewer and development. The City is in the process of re-writing the administrative policies of the Housing Rehabilitation Program and plans to lift the moratorium in calendar year 2015.

The Debt Service Fund cash balance increased by \$1 from the prior year. Principal and interest payments were \$91,903, tax receipts were \$49,328, transfers from the general fund and the road use tax fund were \$37,960 and \$4,616, respectively.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise Fund, Sewer Fund cash balance increased \$34,674 to \$531,395 from the prior year. Several factors contributed to the growth such as an increase in the number of users, an increase in usage and an increase in local option sales tax receipted into the Sewer Fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not amend the budget. The City stayed on course with projects finishing on time as expected. The Clark Circle project came in under budget. At year end, disbursements exceeded amounts budgeted in the debt service function.

The City's receipts were approximately \$52,000 more than budgeted primarily due to receiving more sewer charges for services and more local option sales tax receipts than anticipated.

The City's disbursements were approximately \$329,000 less than budgeted primarily affecting the public works and community and economic development functions.

DEBT ADMINISTRATION

At June 30, 2014, the City had \$745,930 in bonds and notes outstanding, compared to \$657,047 last year, as shown below.

Outstanding Debt at Year-End				
	Year Ended June 30, 2014		Year Ended June 30, 2013	
General obligation notes	\$	520,930	\$	402,047
Sewer revenue notes		225,000		255,000
Total	\$	745,930	\$	657,047

Debt increased \$190,000 as a result of issuing general obligation bonds for the Clark Circle Capital Project. Outstanding principal was reduced by \$101,116. Interest costs for the fiscal year were \$28,583.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$520,930 is significantly below its constitutional debt limit of approximately \$2.3 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Underwood's elected and appointed officials and citizens considered many factors when setting the fiscal year 2015 budget, tax rates and fees charged for various City activities. One of those factors is the economy. As a bedroom community of a major metropolitan area, housing continues to move as new families take residence in the Community.

These factors were taken into account when adopting the budget for fiscal year 2015. The mill levy decreased \$.50 from \$12.78016 to \$12.27985, due to annexation as well as the completion of the TIF financed Eagle Landing development. Disbursements are expected to increase approximately \$840,000, due to the purchase of a new fire truck, and the addition of a sewer lift station and main extension to an annexed area.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$187,000 by the close of fiscal year 2015.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kelly Groskurth, City Clerk, at 218 2nd Street, Underwood, Iowa 51576.

BASIC FINANCIAL STATEMENTS

CITY OF UNDERWOOD

STATEMENT OF ACTIVITIES AND NET POSITION - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Disbursements	Charges for Services	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 63,899	\$ 40,852	\$ 96,728	\$ -0-
Public works	99,147	8	91,852	-0-
Cultures and recreation	32,767	450	20	-0-
Community and economic development	70,619	-0-	46	-0-
General government	139,188	11,600	313	-0-
Debt service	91,903	-0-	-0-	-0-
Capital Projects	163,939	-0-	-0-	-0-
Total governmental activities	661,462	52,910	188,959	-0-
Business type activities:				
Sewer	120,900	122,023	-0-	-0-
Garbage	39,550	45,006	-0-	-0-
Total business type activities	160,450	167,029	-0-	-0-
Total	\$ 821,912	\$ 219,939	\$ 188,959	\$ -0-

Property taxes levied for:
 General purposes
 Debt service
 Tax increment financing
 Local option sales tax
 Unrestricted investment earnings
 Note Proceeds
 Miscellaneous
 Sale of assets
 Transfers
 Total general receipts

Change in cash basis net assets

Cash basis net assets, beginning of year

Cash basis net assets, end of year

Cash basis net position

Restricted:

Expendable:

Streets

Urban renewal

Debt service

Other purposes

Unrestricted

Total cash basis net position

EXHIBIT A

<u>Net (Disbursements), Receipts and Changes in Net Position</u>					
<u>Governmental</u>		<u>Business Type</u>		<u>Total</u>	
<u>Activities</u>		<u>Activities</u>			
\$	73,681	\$	-0-	\$	73,681
	(7,287)		-0-		(7,287)
	(32,297)		-0-		(32,297)
	(70,573)		-0-		(70,573)
	(127,275)		-0-		(127,275)
	(91,903)		-0-		(91,903)
	(163,939)		-0-		(163,939)
	(419,593)		-0-		(419,593)
	-0-		1,123		1,123
	-0-		5,456		5,456
	-0-		6,579		6,579
	(419,593)		6,579		(413,014)
	274,341		-0-		274,341
	49,328		-0-		49,328
	42,867		-0-		42,867
	108,381		-0-		108,381
	-0-		-0-		-0-
	190,000		-0-		190,000
	-0-		-0-		-0-
	-0-		1,000		1,000
	(27,096)		27,096		-0-
	637,821		28,096		665,917
	218,228		34,675		252,903
	639,934		496,721		1,136,655
\$	<u>858,162</u>	\$	<u>531,396</u>	\$	<u>1,389,558</u>
\$	334,781	\$	-0-	\$	334,781
	168,698		-0-		168,698
	1		-0-		1
	7,022		-0-		7,022
	347,660		531,396		879,056
\$	<u>858,162</u>	\$	<u>531,396</u>	\$	<u>1,389,558</u>

See notes to financial statements.

CITY OF UNDERWOOD

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

		Special Revenue	
		Road Use Tax	Urban Renewal Tax Increment
	General		
Receipts:			
Property tax	\$ 203,425	\$ -0-	\$ -0-
Tax increment financing	-0-	-0-	42,867
Other city tax	-0-	-0-	-0-
Licenses and permits	9,923	-0-	-0-
Use of money and property	324	-0-	46
Intergovernmental	94,238	91,852	-0-
Charges for services	33,198	-0-	-0-
Miscellaneous	12,280	8	-0-
Total receipts	<u>353,388</u>	<u>91,860</u>	<u>42,913</u>
Disbursements:			
Operating:			
Public safety	61,672	-0-	-0-
Public works	-0-	85,851	-0-
Culture and recreation	21,273	-0-	-0-
Community and economic development	40,392	-0-	27,844
General government	98,909	-0-	-0-
Debt service	-0-	-0-	-0-
Capital Projects	-0-	-0-	-0-
Total disbursements	<u>222,246</u>	<u>85,851</u>	<u>27,844</u>
Excess (deficiency) of receipts over (under) disbursements	131,142	6,009	15,069
Other financing sources (uses):			
Sale of assets	-0-	-0-	-0-
Bond Proceeds	-0-	-0-	-0-
Operating transfers in	-0-	91,951	-0-
Operating transfers out	(37,960)	(4,616)	-0-
Total other financing sources (uses)	<u>(37,960)</u>	<u>87,335</u>	<u>-0-</u>
Net change in cash balances	93,182	93,344	15,069
Cash balances, beginning of year	<u>239,083</u>	<u>241,437</u>	<u>153,629</u>
Cash balances, end of year	\$ <u>332,265</u>	\$ <u>334,781</u>	\$ <u>168,698</u>
Cash Basis Fund Balances			
Restricted for:			
Urban renewal purposes	\$ -0-	\$ -0-	\$ 168,698
Debt Service	-0-	-0-	-0-
Streets	-0-	334,781	-0-
Other purposes	-0-	-0-	-0-
Assigned for Clark Circle	-0-	-0-	-0-
Unassigned	332,265	-0-	-0-
Total cash basis fund balances	\$ <u>332,265</u>	\$ <u>334,781</u>	\$ <u>168,698</u>

See notes to financial statements.

EXHIBIT B

Local Option Sales Tax		Debt Service		Capital Projects		Other Non-major Governmental Funds		Total
\$	-0-	\$	49,328	\$	-0-	\$	70,916	\$ 323,669
	-0-		-0-		-0-		-0-	42,867
	108,381		-0-		-0-		-0-	108,381
	-0-		-0-		-0-		-0-	9,923
	-0-		-0-		-0-		-0-	370
	-0-		-0-		-0-		-0-	186,090
	-0-		-0-		-0-		-0-	33,198
	-0-		-0-		-0-		-0-	12,288
	108,381		49,328		-0-		70,916	716,786
	-0-		-0-		-0-		2,227	63,899
	-0-		-0-		-0-		13,296	99,147
	-0-		-0-		-0-		11,494	32,767
	-0-		-0-		-0-		2,383	70,619
	-0-		-0-		-0-		40,279	139,188
	-0-		91,903		-0-		-0-	91,903
	-0-		-0-		163,939		-0-	163,939
	-0-		91,903		163,939		69,679	661,462
	108,381		(42,575)		(163,939)		1,237	55,324
	-0-		-0-		-0-		-0-	-0-
	-0-		-0-		190,000		-0-	190,000
	-0-		42,576		-0-		-0-	134,527
	(108,381)		-0-		(10,666)		-0-	(161,623)
	-0-		42,576		179,334		-0-	162,904
	-0-		1		15,395		1,237	218,228
	-0-		-0-		-0-		5,785	639,934
\$	-0-	\$	1	\$	15,395	\$	7,022	\$ 858,162
\$	-0-	\$	-0-	\$	-0-	\$	-0-	\$ 168,698
	-0-		1		-0-		-0-	1
	-0-		-0-		-0-		-0-	334,781
	-0-		-0-		-0-		7,022	7,022
	-0-		-0-		15,395		-0-	15,395
	-0-		-0-		-0-		-0-	332,265
\$	-0-	\$	1	\$	15,395	\$	7,022	\$ 858,162

CITY OF UNDERWOOD

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Enterprise Funds		
	Sewer	Garbage	Total
Operating receipts:			
Charges for services	\$ 121,994	\$ 44,966	\$ 166,960
Miscellaneous	3	40	43
Total receipts	121,997	45,006	167,003
Operating disbursements:			
Business type activities	83,103	39,550	122,653
Total disbursements	83,103	39,550	122,653
Operating income	38,894	5,456	44,350
Non-operating receipts (disbursements):			
Interest	25	-0-	25
Miscellaneous	-0-	-0-	-0-
Debt service	(37,796)	-0-	(37,796)
Total non-operating receipts (disbursements)	(37,771)	-0-	(37,771)
Excess of receipts over disbursements	1,123	5,456	6,579
Other financing sources (uses):			
Sale of assets	1,000	-0-	1,000
Operating transfer in	27,096	-0-	27,096
Operating transfer out	-0-	-0-	-0-
Other financing sources (uses)	28,096	-0-	28,096
Net change in cash balance	29,219	5,456	34,675
Cash balances, beginning of year	457,657	39,064	496,721
Cash balances, end of year	\$ 486,876	\$ 44,520	\$ 531,396
Cash Basis Fund Balances			
Unrestricted	\$ 486,876	\$ 44,520	\$ 531,396
Total cash basis fund balances	\$ 486,876	\$ 44,520	\$ 531,396

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(1) Summary of Significant Accounting Policies

The City of Underwood is a political subdivision of the State of Iowa and located in Pottawattamie County. It was first incorporated in 1902 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general administrative services. The City also provides sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Underwood has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial burdens on the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following board and commissions: Pottawattamie County Assessor's Conference Board, City Assessor's Conference Board and Pottawattamie County Emergency Management Commission.

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position reports information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges from services.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Continued

The Cash Basis Statement of Activities and Net Position presents the City's non-fiduciary net position. Net position is reported in the following categories:

Nonspendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provision or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often have constraints on resources imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include: 1) charges to customers or applicants whose purchase, or use directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Continued

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for the payment of interest and principal on the city's general long-term debt.

The City reports the following major proprietary fund:

The Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements exceeded amounts budgeted in the debt service function.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(2) Cash and Pooled Investments

The City's deposits in bank at June 30, 2014, were covered entirely by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, which consists of cash on hand, cash in bank and certificates of deposit, held at two local institutions in the City's name totaled \$1,428,355 as of June 30, 2014.

Interest Rate Risk

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(3) Bonds and Notes Payable

Annual debt service requirements to maturity of general obligation bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 95,918	\$ 18,409	\$ 30,000	\$ 6,851	\$ 125,918	\$ 25,260
2016	98,196	14,854	30,000	5,906	128,196	20,760
2017	74,909	11,492	30,000	4,961	104,909	16,453
2018	80,475	8,616	30,000	4,017	110,475	12,633
2019	81,056	5,515	30,000	3,071	111,056	8,586
2020	21,654	2,397	30,000	2,126	51,654	4,523
2021	22,269	1,782	30,000	1,182	52,269	2,964
2022	22,901	1,150	15,000	236	37,901	1,386
2023	23,552	500	-0-	-0-	23,552	500
Total	\$ 520,930	\$ 64,715	\$ 225,000	\$ 28,350	\$ 745,930	\$ 93,065

General Obligation Street Improvement Note, 2003

On June 16, 2003, the City financed the 2nd Avenue street paving project through a local bank. The \$150,000 note bears interest at 3.86%, requires 19 semiannual installment of \$9,111, and matured June 16, 2013.

General Obligation Street Improvement Note, 2013

On July 9, 2013, the City issued a \$190,000 general obligation street improvement note with a local bank. The \$190,000 note bears interest at 2.82%, requires semiannual principle and interest installments of \$12,025, and matures June 1, 2023.

General Obligation Fire Equipment Note, 2007

On June 21, 2007, the City financed the purchase of a pumper truck with a local bank. The \$174,000 note bears interest at 4.90%, requires semiannual installments of \$12,038, and matures June 1, 2016.

General Obligation Corporate Purpose Bonds, Series 2009

On April 15, 2009, the City issued bonds to finance street repairs to 3rd Street and the purchase of an ambulance. The \$495,000 bonds bear interest ranging from 2.25% to 4.20%, requires semiannual installments of interest and annual retirements of bonds (approximately \$65,000 annually), and matures June 1, 2019.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(3) Bonds and Notes Payable (Continued)

Sewer Revenue Note

On January 31, 2012, the City issued a \$300,000 sewer revenue note with a local bank. The note bears interest at 3.15%, required semi-annual principal and interest payments, and matures June 1, 2022.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$300,000 of a sewer revenue note issued January 31, 2012. Proceeds from the note provided financing for sewer improvements. The note is payable solely from sewer customer net receipts and are payable through 2022.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$11,806, \$11,464 and \$8,895, respectively, equal to the required contributions for each year.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 3 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums of the City and plan members are \$1,116 for family coverage. For the year ended June 30, 2014, the City contributed \$32,223 and the plan members eligible for benefits contributed \$10,019.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and comp time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time termination payments payable to employees at June 30, 2014, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u> <u>June 30, 2014</u>
Vacation	\$ 2,562
Comp time	<u>765</u>
	\$ <u>3,327</u>

This liability has been computed based on rates of pay in effect at June 30, 2014.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(7) Related Party Transactions

The City had no business transactions between the City and City officials during the year ended June 30, 2014.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014, is as follows:

Transfer to	Transfer from	Amount
Debt Service	General Fund	\$ 37,960
Debt Service	Special Revenue - Road Use	4,616
Special Revenue - Road use	Capital Projects - Clarke Circle	10,666
Special Revenue - Road Use	Special Revenue - Local Option	81,285
Enterprise - Sewer	Special Revenue - Local Option	27,096
Total		<u>\$ 161,623</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official's liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claim expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(9) Risk Management (Continued)

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2014 were \$20,614.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage of \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2014, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all liability claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(9) Risk Management (Continued)

The City also carries workers' compensation insurance purchased from the Iowa Municipalities Workers' Compensation Association, IMWCA. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Urban Renewal Tax Increment Financing Development Agreements

Fieldcrest Development Agreement

On December 10, 2003, the City entered into a development agreement with McKee Contracting. The developer agreed to construct residential infrastructure such as storm sewers, pavement, sanitary sewers, hydrants, and streetlights in the Fieldcrest Urban Renewal Area of the City. The City voided the original agreement and entered into a new agreement with Shiloh Properties, LLC. The developer requested and the City agreed to make economic development tax increment payments to the developer each year during the term of the agreement. For the year ended June 30, 2014, the City rebated \$27,821 to Shiloh Properties, LLC.

The City certifies to the County Auditor by December 1 of each year the following year's tax increment financing request. Per terms of the agreement and in accordance with provisions of Section 403.22 of the Code of Iowa, the City retains 35.1% of the incremental tax receipts for the purpose of providing assistance to low and moderate income households. For the year ended June 30, 2014, the City received \$42,867 of tax increment financing receipts and retained the required percentage of LMI set aside per terms of the agreement.

In March 2014, the City entered into an agreement with Shiloh Properties, LLC to develop Fieldcrest Phase 3 Subdivision and the construction of public infrastructure on certain real property situated in the urban renewal area. The City will use up to \$440,000 tax increment financing to support the developer's construction of public infrastructure necessary for the development of the Fieldcrest Phase 3 Project. Per terms of the agreement 15% of tax increment financing receipts will be set aside for low to moderate income households.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(11) Commitments

The City renewed an agreement for law enforcement services with Pottawattamie County. The fee for the year ended June 30, 2014 was \$16,048.

The City has extended an agreement with M & K Tree Service, Inc. for solid waste collection through 2015 at a cost of \$11.09 (with annual optional incremental fuel increases) per month per household or commercial unit.

(12) Subsequent Events

On July 3, 2014, the City entered into an agreement for the purchase of a 2015 Pumper/Tanker in an amount not to exceed \$510,000.

(13) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

OTHER INFORMATION

CITY OF UNDERWOOD

**BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS**

OTHER INFORMATION

YEAR ENDED JUNE 30, 2014

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 323,669	\$ -0-
Tax increment financing	42,913	-0-
Other city tax	108,381	-0-
Licenses and permits	9,923	-0-
Use of money and property	324	25
Intergovernmental	186,090	-0-
Charges for services	33,198	166,960
Special assessments	-0-	-0-
Miscellaneous	12,288	43
Total receipts	<u>716,786</u>	<u>167,028</u>
Disbursements:		
Public safety	63,899	-0-
Public works	99,147	-0-
Health and social services	-0-	-0-
Culture and recreation	32,767	-0-
Community and economic development	70,619	-0-
General government	139,188	-0-
Debt service	91,903	-0-
Capital projects	163,939	-0-
Business type	-0-	160,449
Total disbursements	<u>661,462</u>	<u>160,449</u>
Excess (deficiency) of receipts over (under) disbursements	55,324	6,579
Other financing sources, net	<u>162,904</u>	<u>28,095</u>
Excess (deficiency) of receipts and other financing sources	218,228	34,674
Balance beginning of year	<u>639,934</u>	<u>496,721</u>
Balance end of year	\$ <u>858,162</u>	\$ <u>531,395</u>

See Accompanying Independent Auditor's Report.

		Budgeted Amounts		Final to
Total		Original and Final		Total
				Variance
\$	323,669	\$	317,654	\$ 6,015
	42,913		50,000	(7,087)
	108,381		91,738	16,643
	9,923		3,555	6,368
	349		1,052	(703)
	186,090		183,665	2,425
	200,158		179,390	20,768
	-0-		-0-	-0-
	12,331		3,884	8,447
	<u>883,814</u>		<u>830,938</u>	<u>52,876</u>
	63,899		69,849	5,950
	99,147		174,416	75,269
	-0-		-0-	-0-
	32,767		68,379	35,612
	70,619		176,693	106,074
	139,188		174,461	35,273
	91,903		87,302	(4,601)
	163,939		200,000	36,061
	160,449		199,763	39,314
	<u>821,911</u>		<u>1,150,863</u>	<u>328,952</u>
	61,903		(319,925)	381,828
	<u>190,999</u>		<u>300,000</u>	<u>(109,001)</u>
	252,902		(19,925)	272,827
	<u>1,136,655</u>		<u>1,136,655</u>	<u>-0-</u>
\$	<u>1,389,557</u>	\$	<u>1,116,730</u>	\$ <u>272,827</u>

CITY OF UNDERWOOD

NOTES TO OTHER INFORMATION - BUDGETARY REPORTING

JUNE 30, 2014

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were no budget amendments.

During the year ended June 30, 2014, disbursements exceeded amounts budgeted in the debt service function.

SUPPLEMENTARY INFORMATION

CITY OF UNDERWOOD

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	<u>Special Revenue</u>	
	<u>Emergency</u>	<u>Employee Benefits</u>
Receipts:		
Property tax	\$ -0-	\$ 48,967
Disbursements:		
Operating:		
Public safety	-0-	2,227
Public works	-0-	13,296
Culture and recreation	-0-	11,494
Community and economic development	-0-	2,383
General government	-0-	19,665
Total disbursements	<u>-0-</u>	<u>49,065</u>
Excess (deficiency) of receipts over (under) disbursements	-0-	(98)
Other financing sources (uses):		
Operating transfers in	-0-	-0-
Operating transfers out	<u>-0-</u>	<u>-0-</u>
Net financing sources (uses)	<u>-0-</u>	<u>-0-</u>
Net change in cash balances	-0-	(98)
Cash balances beginning of year	<u>4,204</u>	<u>1,581</u>
Cash balances end year	\$ <u>4,204</u>	\$ <u>1,483</u>
Cash Basis Fund Balances		
Restricted for other purposes	\$ <u>4,204</u>	\$ <u>1,483</u>
Total cash basis fund balances	\$ <u>4,204</u>	\$ <u>1,483</u>

See Accompanying Independent Auditor's Report.

SCHEDULE 1

<u>Insurance</u>		<u>Total</u>	
\$	21,949	\$	70,916
	-0-		2,227
	-0-		13,296
	-0-		11,494
	-0-		2,383
	20,614		40,279
	<u>20,614</u>		<u>69,679</u>
	1,335		1,237
	-0-		-0-
	<u>-0-</u>		<u>-0-</u>
	<u>-0-</u>		<u>-0-</u>
	1,335		1,237
	<u>-0-</u>		<u>5,785</u>
\$	<u>1,335</u>	\$	<u>7,022</u>
\$	<u>1,335</u>	\$	<u>7,022</u>
\$	<u>1,335</u>	\$	<u>7,022</u>

CITY OF UNDERWOOD
SCHEDULE OF INDEBTEDNESS
JUNE 30, 2014

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation notes:			
Street Improvement Note	June 16, 2003	3.86 %	\$ 150,000
Clarke Circle Improvement Note	July 9, 2013	2.82 %	\$ 190,000
Fire Equipment Note	June 21, 2007	4.90 %	\$ 174,000
Corporate Purpose Bonds	April 15, 2009	2.25 - 4.20 %	\$ 495,000
Revenue notes:			
Sewer Revenue Note	January 31, 2012	3.15%	\$ 300,000

See Accompanying Independent Auditor's Report.

SCHEDULE 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 57	\$ -0-	\$ 57	\$ -0-	\$ 178	\$ -0-
-0-	190,000	-0-	190,000	4,867	447
66,990	-0-	21,059	45,930	3,017	153
335,000	-0-	50,000	285,000	12,725	933
<u>\$ 402,047</u>	<u>\$ 190,000</u>	<u>\$ 71,116</u>	<u>\$ 520,930</u>	<u>\$ 20,787</u>	<u>\$ 1,533</u>
<u>\$ 255,000</u>	<u>\$ -0-</u>	<u>\$ 30,000</u>	<u>\$ 225,000</u>	<u>\$ 7,796</u>	<u>\$ 591</u>

CITY OF UNDERWOOD
BOND AND NOTE MATURITIES

JUNE 30, 2014

General Obligation Bonds and Notes

Year Ending June 30,	Street Improvements Issued July 9, 2013		Fire Truck Note Issued June 21, 2007	
	Interest Rate	Amount	Interest Rate	Amount
2015	2.82	\$ 18,825	4.9%	\$ 22,093
2016	2.82	19,359	4.9%	23,837
2017	2.82	19,909	--	-0-
2018	2.82	20,475	--	-0-
2019	2.82	21,056	--	-0-
2020	2.82	21,654	--	-0-
2021	2.82	22,269	--	-0-
2022	2.82	22,901	--	-0-
2023	2.82	23,552	--	-0-
Total		\$ 190,000		\$ 45,930

Year Ending June 30,	Essential Corporate Purpose Bonds Issued April 15, 2009		Total
	Interest Rate	Amount	
2015	3.05%	\$ 55,000	\$ 95,918
2016	3.50%	55,000	98,196
2017	3.50%	55,000	74,909
2018	4.20%	60,000	80,475
2019	4.20%	60,000	81,056
2020	--	-0-	21,654
2021	--	-0-	22,269
2022	--	-0-	22,901
2023	--	-0-	23,552
Total		\$ 285,000	\$ 520,930

See Accompanying Independent Auditor's Report.

Sewer Revenue Note

Year Ending June 30,	Sewer Revenue Note Issued January 31, 2012		Total
	Interest Rate	Amount	
2015	3.15%	\$ 30,000	\$ 30,000
2016	3.15%	30,000	30,000
2017	3.15%	30,000	30,000
2018	3.15%	30,000	30,000
2019	3.15%	30,000	30,000
2020	3.15%	30,000	30,000
2021	3.15%	30,000	30,000
2022	3.15%	15,000	15,000
Total		\$ <u>225,000</u>	\$ <u>225,000</u>

CITY OF UNDERWOOD

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION - ALL GOVERNMENTAL FUNDS

FOR THE LAST TEN YEARS

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Receipts:					
Property taxes	\$ 323,669	\$ 308,902	\$ 313,228	\$ 304,106	\$ 293,877
Tax increment financing	42,913	138,374	132,638	138,597	123,215
Other city taxes	108,381	95,905	104,829	83,453	70,550
License and permits	9,923	11,605	4,292	7,420	7,920
Use of money and property	324	1,002	778	1,459	1,592
Intergovernmental	186,090	200,434	210,675	176,971	156,597
Charges for service	33,198	25,223	21,858	29,557	14,424
Special assessments	-0-	-0-	631	-0-	80
Miscellaneous	12,288	30,462	10,270	4,604	14,845
Total	<u>\$ 716,786</u>	<u>\$ 811,907</u>	<u>\$ 799,199</u>	<u>\$ 746,167</u>	<u>\$ 683,100</u>
Disbursements:					
Operating:					
Public safety	\$ 63,899	\$ 66,461	\$ 85,024	\$ 159,372	\$ 244,484
Public works	99,147	145,866	169,873	137,970	114,943
Health and social services	-0-	-0-	-0-	-0-	-0-
Culture and recreation	32,767	24,346	24,391	22,980	28,358
Comm. and economic dev	70,619	309,896	155,806	128,010	137,592
General government	139,188	156,684	147,998	144,403	129,953
Debt service	91,903	118,839	124,397	137,599	127,722
Capital projects	163,939	-0-	-0-	82,859	-0-
Total	<u>\$ 661,462</u>	<u>\$ 822,092</u>	<u>\$ 707,489</u>	<u>\$ 813,193</u>	<u>\$ 783,052</u>

See accompanying independent auditor's report.

SCHEDULE 4

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$	270,827	\$ 256,042	\$ 231,541	\$ 212,017	\$ 205,970
	107,394	105,459	112,347	76,287	98,565
	90,339	77,247	85,383	90,562	76,458
	10,133	14,064	5,840	7,936	8,683
	6,600	16,071	12,858	3,378	1,252
	391,438	203,803	154,660	129,724	148,400
	16,255	10,954	9,893	15,763	37,616
	-0-	461	-0-	15	168
	<u>35,613</u>	<u>3,946</u>	<u>20,544</u>	<u>28,412</u>	<u>10,762</u>
\$	<u>928,599</u>	\$ <u>688,047</u>	\$ <u>633,066</u>	\$ <u>564,094</u>	\$ <u>587,874</u>

\$	48,252	\$ 63,655	\$ 244,708	\$ 165,080	\$ 80,432
	95,392	90,412	41,769	61,710	96,443
	-0-	-0-	-0-	-0-	650
	22,519	15,818	22,324	12,380	23,735
	147,032	160,643	123,243	107,790	97,029
	126,105	122,462	116,766	126,730	112,466
	107,177	98,114	96,850	91,668	125,109
	<u>372,950</u>	<u>249,091</u>	<u>28,072</u>	<u>85,151</u>	<u>-0-</u>
\$	<u>919,427</u>	\$ <u>800,195</u>	\$ <u>673,732</u>	\$ <u>650,509</u>	\$ <u>535,864</u>

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

MUXFELDT ASSOCIATES, CPA, P.C.

August 26, 2014

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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Licensed In:

Iowa
Missouri

To the Honorable Mayor and
Members of the City Council:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Underwood, Iowa as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated August 26, 2014. My report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Underwood's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Underwood's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Underwood's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, I identified a deficiency in internal control that I consider to be a material weakness.

Continued . . .

August 26, 2014
Page Two

To the Honorable Mayor and
Members of the City Council:

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Underwood's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiency described in Part I of the accompanying Schedule of Findings as items I-A-14 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in Part I of the accompanying Schedule of Findings as items I-B-14 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Underwood's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Underwood's Responses to Findings

The City of Underwood's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. The City of Underwood's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Continued . . .

August 26, 2014
Page Three

To the Honorable Mayor and
Members of the City Council

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly this communication is not suitable for any other purpose.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Underwood during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Musfeldt Associates, CPA, P.C.

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES

I-A-14 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For example, the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all performed by the same person.

Recommendation - I realize that with one full time city clerk and a part time deputy clerk, a proper segregation of duties is challenging. However, City Council should monitor control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged.

I-B-14 Financial Reporting - During the audit, I identified significant mispostings to the road use tax fund. Adjustments were subsequently made by the City to properly report these amounts in the City's financial statements.

Recommendation - The City should implement procedures to ensure local option sales tax and transfers are properly recorded in the City's financial statements.

Response - We will double check this in the future to avoid posting errors.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014**

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-14 Certified Budget - Disbursements during the year ended June 30, 2014, exceeded the amounts budgeted in the debt service function.

Recommendation - The budget should have been amended in accordance with Chapter 384.14 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in future, if applicable.

Conclusion - Response accepted.

- II-B-14 Questionable Disbursements - I noted no disbursements for parties, banquets or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-14 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-14 Business Transactions - There were no business transactions between the City and City officials or employees.

- II-E-14 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-14 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

- II-G-14 Deposits and Investments - I noted no instance of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

- II-H-14 Unsubstantiated Disbursements - It was noted that not all debit/credit card charges were substantiated. I also noted that the City does not have a written credit card policy.

Recommendation - Disbursements should be substantiated with appropriate documentation. City Council should consider adopting a written credit card policy.

Response - Debit/credit card charges will be appropriately substantiated in the future and we will consider adopting a written credit card policy.

Conclusion - Response accepted.

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014**

Part II: Other Findings Related to Required Statutory Reporting (Continued):

- II-I-14 Revenue Bonds and Notes - No instances of non-compliance with the revenue bond and note resolutions were noted.
- II-J-14 Tax Increment Financing - Chapter 403.19 of the Code of Iowa provides that a municipality may certify loans, advances, indebtedness and bonds (indebtedness and bonds (indebtedness)) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. Urban Renewal Area TIF Indebtedness was certified to the County Auditor before December 1, and no exceptions were noted.
- II-K-14 Urban Renewal Annual Report - The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1, and no exceptions were noted.

CITY OF UNDERWOOD
UNDERWOOD, IOWA 51576

NEWS RELEASE

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an audit report on the City of Underwood, Iowa.

The City's receipts totaled \$1,074,815 for the year ended June 30, 2014, a nine percent increase from the prior year. The receipts included \$323,669 from property tax, \$42,867 from tax incremental financing, \$219,939 from charges for services, \$188,959 from operating grants, contributions and restricted interest, \$108,381 from local option sales tax, \$190,000 from note proceeds, and \$1,000 from sale of assets.

Disbursements for the year totaled \$821,912 a fourteen percent decrease from the prior year, and included \$163,939 for capital projects, \$139,188 for general government, and \$99,147 for public works. Also, disbursements for business-type activities totaled \$160,450.

The significant increase is due primarily to note proceeds used to finance the Clark Circle project.

A copy of the audit report is available for review in the City Clerk's office, in the office of the Auditor of State and on the Auditor of State's web site <http://auditor.iowa.gov/reports/index.html>.

